



Why California School Districts Care About Mandatory Social Security

After years of general talk about reforming the Social Security system, news out of Washington indicates Congress and the Administration are finally serious in their search for ways to bail out the struggling program. A common element in almost all the proposals under consideration is mandatory Social Security coverage of newly hired state and local government employees, including public school teachers.

The Teachers' Retirement Board opposes mandatory Social Security coverage. California school districts would be asked to cast aside decades of successfully providing retirement benefits to generations of teachers, in order to force future members into a system with reduced benefits at higher cost.

Social Security has been in place for more than 60 years as a "pay-as-you-go" system. It might have been "fair" to mandate state and local governments at the start. However, it is unfair to wait until late in the game and then mandate coverage to solve long-standing solvency problems that the states had no hand in creating.

Mandated coverage for newly hired teachers would adversely affect not only those teachers, but would have far-reaching impacts on the schools, current teachers and CalSTRS itself.

Threats to School Budgets

- ✓ Added to current pension costs, schools would face a 6.2 percent Social Security

payroll tax cost for each new teacher. According to a CalSTRS actuarial study, the average additional annual cost for a new hire would be at least \$1,600 for the school district.

- ✓ School district administrators have already indicated to CalSTRS that a reduction in services would be necessary in order to address the increased costs of mandatory coverage. This could mean:
 - a cut in funds for libraries, athletics and other programs
 - decreases in employer-provided benefits for current teachers, such as health care premium coverage
 - less money for salary increases
- ✓ A CalSTRS actuarial study shows the current CalSTRS plan produces a much greater benefit than a plan coordinated with Social Security for the same level of contribution. Unless additional state revenues are found, newly hired teachers would not receive the same level of benefit as teachers already hired. This would undermine the equity principle that all teachers within each district should receive comparable benefits for the same service and pay. The resulting two-tiered caste system could potentially present recruitment and labor relations problems.
- ✓ Depending upon the definition used of "new hire," currently employed teachers, who change jobs and begin

working for another district, might be affected. It is likely “new hire” would be defined as it is for Medicare, which applies not only to persons just hired, but also to persons who change from one employer to another. Given the additional costs to the teacher covered by Social Security, school districts might find it more difficult to recruit from another district.

Threats to Local Control and Flexible Benefit Management

- ✓ The “one-size-fits-all” approach of Social Security determined in Washington would severely affect the current retirement plan with benefits tailored to teachers’ unique work histories.
- ✓ School districts would lose the ability to provide input to state and local governments in managing retirement costs directly, with such costs now largely being thrust upon them from the federal government.

Threats to the Retirement System

- ✓ According to the U.S. General Accounting Office, mandatory coverage is “likely to result in reduced contributions to the current pension plan.” CalSTRS is currently well-funded. However, in the future, the liabilities for the closed group of current participants could exceed assets, creating an unfunded liability. A substantial reduction in the contributions from new hires would adversely affect the pay-down of any unfunded liability of the plan.
- ✓ A reduction in contributions to CalSTRS due to mandatory coverage could also impact future increases in retirement benefits.

The Threat is Real and Imminent

- ✓ Competing Social Security reform plans already are being put together by Republicans and Democrats. All the plans proposed thus far include a mandatory coverage provision.
- ✓ Both Democrats and Republicans have indicated they view mandatory Social Security for local and state government workers as a “cash cow” or “free money.” One White House staffer called adding coverage of these workers a “no brainer.”
- ✓ Once a mandatory coverage provision is in a comprehensive Social Security reform legislation package, it will be hard to get out. The objective is not to be included in such a comprehensive package in the first instance.
- ✓ Unless concerned teachers and teacher groups express their concerns very soon, any Social Security reform legislation adopted this year will likely include mandatory coverage for all new teachers.
- ✓ Now is the time to act. Given the lengthy process to get to this point of actually drafting Social Security reform legislation, once action is taken in 1999, it will be years before further reform will be attempted. This means that by preventing mandatory coverage now, it probably will be years before the issue is raised again.